

**CORPORATE RESPONSIBILITY FOR ENVIRONMENTAL PERFORMANCE  
Keynote Speech**

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**To**

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**1. Introduction**

Excellencies, distinguished participants, ladies and gentlemen: It is a great pleasure to join you in this important, ongoing dialogue about corporate responsibility and the environment.

There is an old Chinese proverb that says: "If you want to know your past - look into your present conditions. If you want to know your future - look into your present actions."

If we look at our present conditions, with respect to the environment, it is not a pretty picture. Rapid industrialization and out-of-control consumer demand have left huge scars on virtually every surface of the earth, scars that are reflected by the air we breathe and the water we need to survive.

But looking at our present actions – for instance, at this gathering of minds and the relatively recent global focus on sustainable development – it is possible to detect a glimmer of hope for a different approach and a different future.

So I want to begin by commending the Greening of Industry Network for their work in keeping the issue of environmental responsibility at the forefront of the corporate and global agenda.

On behalf of the Asian Development Bank, I also want to thank the conference organizers for providing this opportunity to discuss the issue of sustainability, specifically in the Asia-Pacific context. Given the enormity and urgency of the challenge, I must say the setting for this 12<sup>th</sup> international conference could not be more appropriate.

## **2. Growing economy, growing crisis**

We are all aware that we are entering the Asian century. For the foreseeable future, Asia will be the engine driving the global economy. Therefore, any chance of a globally sustainable future depends on ensuring that growth in Asia is on a sustainable path. In this respect, there is a lot of work to be done.

Let me illustrate by providing a few statistics from the People's Republic of China, which is rapidly becoming the most significant economic force in Asia:

- China's economy grew by 9.1% in 2003, the highest annual economic growth rate since 1997.
- In the first half of 2004, gross domestic product (GDP) grew by a faster-than-expected 9.7% and fixed asset investment increased by 28.6%.
- With a "soft landing" expected, China's economy is expected to continue growing rapidly at 8.8% in 2004 and 7.8% in 2005.

To win its war on poverty, in which it has been spectacularly successful to date, the country needs to create 15-20 million non-farm jobs each year to provide opportunities for new labor

market entrants, for workers from former state-owned enterprises, and for some of the 150 million rural laborers seeking to exit the agriculture sector. With the private sector driving job creation, per capita GDP is expected to reach US\$3,000 by 2020.

So, growth has been phenomenal. But phenomenal growth has come at a huge price. On the World Bank's global list of the 20 cities with the worst air quality, 16 are Chinese. China has over 1.3 billion people but only 20 million, or less than 2%, have cars. Beijing expects this figure to explode seven-fold to 140 million between now and 2020 as a booming middle class, eager to spend like Westerners, starts demanding the same luxuries. Imagine the environmental effect on top of the already poor air quality.

According to World Bank estimates, heavy air pollution contributes to respiratory illnesses that prematurely kill up to 300,000 people a year, many in cities but also in rural areas. In addition, liver and stomach cancer, linked in some studies to water pollution, are among the leading causes of death in the countryside. Dust and sandstorms from overexploited soils threaten not only the capital, Beijing, but also spread an ominous yellow cloud to other countries.

Elizabeth C. Economy, author of "The River Runs Black," observes that not only are China's cities offloading polluting industries to rural areas, but polluting industries themselves are seeking poorer areas in which to do business. And she argues: "No doubt there is an economic food chain, and the lower you are, the worse off your environmental problems are likely to be."<sup>1</sup> In short, China's growing ecological and health crisis will hit the poor hardest of all.

As China hurtles down the development path, the rest of Asia is sure to follow! There is very little doubt that this explosive growth will have a profound impact on the region and the rest of

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<sup>1</sup> Elizabeth C. Economy. 2004. *The River Runs Black*. Cornell University Press.

the world. We therefore cannot hope for a sustainable global future without first ensuring a sustainable Asian growth path. Although strict environmental laws and regulations must remain in force, we cannot rely on governments alone to ensure sustainable growth. What is needed is a significant change in behavior and practices by the region's 50 million business enterprises, held in check by robust partnerships with civil society and governments.

### **3. Engaging the corporate sector – challenge and opportunity**

As we all know, the private sector is increasingly expected to do more to pursue the goals and objectives of sustainable development. Indeed, we see an emerging "tidal wave" of pressures coming from external forces, which companies in the Asia-Pacific region can no longer ignore.

Public-private partnerships are being formed in all areas to achieve environmental objectives. Commercial banks, stock exchanges, and insurance companies require borrowers to demonstrate environmental commitment. Chambers of commerce are embracing charters for sustainable development. Global environmental performance standards have become a badge of good corporate governance. Consumers demand evidence that goods were produced in a sustainable manner and are prepared to boycott companies suspected of ignoring environmental and labor laws. Environmentally and socially responsible investment funds exclude poor environmental performers and reward "green" companies. Anti-globalization activists armed with modern communication technologies are demanding greater accountability. Corporate annual reports are expected to cover social and environmental performance.

Stockholder advocates are pushing wide-ranging resolutions at annual meetings – and the list goes on.

So far, much of this pressure has emphasized voluntary commitment, but the trend is inexorably towards more mandatory requirements. Companies in the Asia-Pacific region will be gradually, but surely, caught up in these worldwide trends.

Unfortunately, even those companies that see the light and are prepared to move towards compliance often face a confusing *mélange* of requirements, coming from commitments of their governments to global standards and treaties, from national governments formulating strategic plans and standards, subnational and sectoral standards, and industry standards, eco-labels, and benchmarks. The good news is that a relatively new set of standards has emerged from public-private partnerships to guide negotiations among partners who were previously viewed as "enemies."

Even better news, from a corporate perspective, is the prospect of expanding business opportunities afforded by the progress towards sustainable development. New business opportunities abound for companies that are prepared to go beyond compliance and seek new markets for environmental goods and services. Consumer demand for "green" products is flourishing, and millions of new jobs are being created in "green" industries.

In general, companies in developing Asia and the Pacific have been slow to capitalize on these opportunities. As a result, more advanced economies are siphoning research and development talent from those less developed, contributing to a "brain drain." Governments and corporations must work together to create opportunities for top scientists and technologists in their home

countries to ensure a supply of innovative environmental goods and services that can be promoted by entrepreneurial firms in the region.

#### **4. The missing ingredient – full engagement**

Despite both the “stick” of external pressures and the “carrot” of new opportunities, we do not yet have a fully engaged corporate sector – committed to environmentally sound and sustainable consumption and production, in partnership with civil society, governments and other stakeholders. And this, in ADB’s view, is the principal missing ingredient in achieving sustainable development.

The key role of the corporate sector is universally acknowledged, but concerted corporate sector engagement in these global processes has yet to be developed in the region. Particularly in ADB’s developing member countries, it seems that most firms continue to be more concerned with "survivability" than "sustainability."

Some laggard firms may believe that there is no need to move towards or beyond compliance, because new technologies are coming along that will make the environmental concerns of the past few decades obsolete. While some technologies, such as nanotechnology and biotechnology, may offer the promise of doing so, they could in turn make many old-style businesses in the region equally obsolete. Information technologies and the phenomenal growth of e-business, tailoring production to precise consumer demands, and just-in-time production systems may also make the old hierarchical corporate forms obsolete.

The business community in the region, dominated by family-owned firms, state-owned enterprises, and small and medium enterprises (SMEs) needs to be aware of these trends.

Business needs to participate in finding solutions to environmental problems, and be ready to seize new opportunities. Blissful ignorance is no longer an option.

## **5. Enabling change: What can be done?**

Governments and other institutional actors in the Asia-Pacific region have an important role to play in framing a sustainable future. There is an urgent need for these sectors to play "catch up" -- to create an enabling environment that will allow firms to leapfrog over outmoded policy approaches and technologies.

Partnerships are key, and the challenges are daunting. But the alternative – the consequence of continuing down the current path of environmental degradation – is unthinkable.

Global sustainability depends on what happens in the Asia-Pacific region over the next 20-50 years. If this region cannot achieve sustainability, then the rest of the world cannot compensate for its failure.

As we look at ways to address this huge challenge, we need to ask some fundamental questions. For example:

- Can the region's myriad companies form productive partnerships with national governments, civil society and other stakeholders to lead the way to an environmentally sound and sustainable future? Or, in a rapidly globalizing world, driven by revolutionary changes in technology and communications, are the region's corporations doomed to obsolescence?
- If they are to participate, what do governments and organizations like ADB need to do to create the most effective enabling environment?

- What role should consumers, stockholders, advocacy groups, and civil society play in reforming the region's environmental laggards?

As you know from your program, ADB is conducting a workshop immediately following this session. I want to encourage all of you to participate in that workshop, which will address these and other questions, and develop some pathways for greater progress in the future. The results of the workshop will be incorporated into ADB's Asian Environment Outlook 2005, a report being prepared now, focusing on corporate environmental responsibility. I hope you will take advantage of this opportunity to share with us your wealth of knowledge and ideas – and through us, with those who have the power to influence and shape our environmental future.

## 6. **Concluding remarks**

Ladies and gentlemen, media guru Marshall McLuhan, who coined the phrase 'global village,' once said: "There are no passengers on Spaceship Earth. We are all crew."

And so it is in this quest to ensure a sustainable course for the Asia- Pacific region and for the world. Our crew must include the more than 50 million business operating in the region – from the small mom-and-pop operations to state-owned, private sector and multi-national companies. It must involve government officials responsible for industry and trade, as well as environmental agencies, in partnerships with business to lessen the burden of regulatory control and to help create new business opportunities. It must invite environmentally and socially responsible investors, multilateral development agencies, nongovernmental organizations (NGOs) and other civil society stakeholders on board to complete the collaborative circle.

Only by getting all players onto “spaceship earth” and working together can we harness the power of corporations to address the massive environmental challenges in Asia and the Pacific. Nothing less than the future of our planet depends on getting these partnerships right!